

FEDERAL OLD-AGE AND SURVIVORS INSURANCE  
AND DISABILITY INSURANCE TRUST FUNDS

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COMMUNICATION

FROM

THE BOARD OF TRUSTEES  
OF THE  
FEDERAL OLD-AGE AND SURVIVORS  
INSURANCE AND DISABILITY  
INSURANCE TRUST FUND

TRANSMITTING

THE 1992 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE  
FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND THE FED-  
ERAL DISABILITY INSURANCE TRUST FUNDS, PURSUANT TO 42  
U.S.C. 401(c)(2).



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**1992 ANNUAL REPORT OF  
THE BOARD OF TRUSTEES OF THE  
FEDERAL OLD-AGE AND SURVIVORS  
INSURANCE  
AND DISABILITY INSURANCE TRUST FUNDS**

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OLD-AGE AND SURVIVORS  
INSURANCE  
AND DISABILITY INSURANCE TRUST  
FUNDS**

**TRANSMITTING**

**THE 1992 ANNUAL REPORT OF THE BOARD,  
PURSUANT TO  
SECTION 201(c)(2) OF THE SOCIAL SECURITY ACT,  
AS AMENDED**

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## LETTER OF TRANSMITTAL

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BOARD OF TRUSTEES OF THE  
FEDERAL OLD-AGE AND SURVIVORS INSURANCE  
AND DISABILITY INSURANCE TRUST FUNDS,  
Washington, D.C., April 2, 1992

HONORABLE THOMAS S. FOLEY  
Speaker of the House of Representatives  
Washington, D.C.

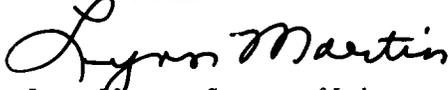
HONORABLE DAN QUAYLE  
President of the Senate  
Washington, D.C.

GENTLEMEN: We have the honor of transmitting to you the 1992 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (the 52d such report), in compliance with section 201(c)(2) of the Social Security Act.

Respectfully,



NICHOLAS F. BRADY, *Secretary of the Treasury, and Managing Trustee of the Trust Funds.*



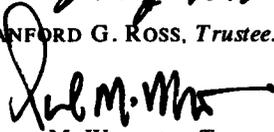
LYNN MARTIN, *Secretary of Labor, and Trustee.*



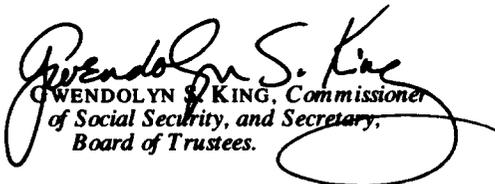
LOUIS W. SULLIVAN, M.D., *Secretary of Health and Human Services, and Trustee.*



STANFORD G. ROSS, *Trustee.*



DAVID M. WALKER, *Trustee.*



GWENDOLYN S. KING, *Commissioner of Social Security, and Secretary, Board of Trustees.*

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## **I. OVERVIEW**

### **A. INTRODUCTION**

The Old-Age, Survivors, and Disability Insurance (OASDI) program in the United States provides protection against the loss of earnings due to retirement, death, or disability. The OASDI program consists of two separate parts which pay monthly benefits to workers and their families. Under the Old-Age and Survivors Insurance (OASI) program, monthly benefits are paid to retired workers and their families, and to survivors of deceased workers. Under the Disability Insurance (DI) program, monthly benefits are paid to workers who become disabled and to their families.

The Social Security Act establishes a Board of Trustees to oversee the financial operations of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund. The Board is composed of five members, three of whom serve automatically by virtue of their positions in the Federal Government: the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health and Human Services. The other two members are appointed by the President and confirmed by the Senate to serve as public representatives: Stanford G. Ross and David M. Walker are currently serving 4-year terms that began on October 2, 1990.

The Social Security Act requires, among other duties, that the Board report annually to the Congress on the financial and actuarial status of the OASI and DI Trust Funds. This annual report, for 1992, is the 52d such report.

**B. HIGHLIGHTS**

This section summarizes the more important developments since the 1991 Annual Report was issued and describes the major features of this report.

- At the end of December 1991, 40.6 million people were receiving monthly benefits under the OASDI program. During 1991, an estimated 132 million people worked in jobs covered by the OASDI program and paid OASDI taxes on their earnings. The following table summarizes the financial transactions of the OASI and DI Trust Funds in fiscal year 1991 which ended September 30, 1991 (in billions):

	OASI	DI	Combined
Assets at beginning of year .....	\$203.4	\$11.5	\$214.9
Income .....	293.3	29.3	322.6
Expenditures.....	241.3	27.8	269.1
Net increase in assets.....	52.0	1.5	53.5
Assets at end of year .....	255.4	13.0	268.4

- The invested assets of the OASI and DI Trust Funds, combined, earned interest amounting to \$19.8 billion during fiscal year 1991. The effective annual rate of interest earned by the combined assets during the 12 months ending June 30, 1991, was 9.2 percent. (This period is used, rather than the fiscal year, because interest on special issues is paid semiannually on June 30 and December 31.) During the same period, the average interest rate on new securities purchased by the trust funds was 8.4 percent.
- Administrative expenses for the OASDI program during fiscal year 1991 were \$2.5 billion, which is equal to 1.0 percent of benefit payments for the year.
- An automatic benefit increase of 3.7 percent became effective for December 1991. Effective for 1992, the OASDI “contribution and benefit base” was increased from \$53,400 to \$55,500. In addition, the annual exempt amounts under the “retirement earnings test” were raised from \$7,080 to \$7,440 for beneficiaries under age 65, and from \$9,720 to \$10,200 for beneficiaries aged 65 to 69. (The retirement earnings test does not apply to beneficiaries aged 70 and over.)

- The appointment of an Advisory Council on Social Security was announced by the Secretary of Health and Human Services in June 1989. Under the Social Security Act, the Advisory Council was to study and review the status of the OASDI and Medicare programs. An Interim Report on Social Security and the Federal Budget was issued by the Council in July 1990. The Council submitted its final report and recommendations to the Secretary of Health and Human Services in December 1991.

The Advisory Council also commissioned a Social Security Technical Panel, to review the estimates of the financial status of the OASDI program that were presented in the 1990 Annual Report. (A Health Technical Panel was also established to review the estimates for the Medicare program.) The Trustees have received and considered the report of the Advisory Council's Social Security Technical Panel and have adopted certain of the recommendations and incorporated them beginning in the 1991 report. Other recommendations are continuing to be considered by the Trustees.

To evaluate the financial status of the OASDI program under a broad range of possible future conditions, actuarial estimates are prepared under three alternative sets of economic and demographic assumptions. Alternative II is the "intermediate" set of assumptions, and represents the Trustees' "best estimates" of future economic and demographic conditions. Alternative I is characterized as a more "optimistic" set—it assumes relatively rapid economic growth, low inflation, and favorable (from the standpoint of program financing) demographic conditions. Alternative III is more "pessimistic," with slower economic growth, more rapid inflation, and financially disadvantageous demographic conditions.

The Trustees prepare both "short-range" and "long-range" estimates of the financial and actuarial status of the trust funds. Short-range estimates are prepared for the next 10 years (1992-2001). Long-range estimates cover the next 75 years, in keeping with the long-term financial obligations incurred by the OASDI program. Specific tests are applied to evaluate the overall actuarial status of the program. There is a short-range test of financial adequacy and a long-range test of close actuarial balance. The following statements summarize the actuarial estimates:

- Over the next 10 years, the assets of the OASI and DI Trust Funds, combined, are estimated to increase substantially. At the beginning of calendar year 1992, OASDI assets amounted to \$280.7

## *Overview*

billion or 96 percent of annual OASDI expenditures. By the year 2001, the assets are estimated to increase to \$998 billion, or 206 percent of annual expenditures, based on the intermediate assumptions. In the 1991 Annual Report, based on the intermediate assumptions, assets were estimated to increase to 229 percent of annual expenditures by the year 2000.

The OASI and DI Trust Funds, on a combined basis, pass the short-range test of financial adequacy by a wide margin.

- The assets of the OASI Trust Fund grow steadily under all three sets of assumptions during 1992 to 2001. OASI assets are estimated to increase from their current level of \$267.8 billion, or 103 percent of annual expenditures, to \$1,026 billion, or 245 percent of annual expenditures at the beginning of the year 2001, based on the intermediate assumptions.

The OASI Trust Fund passes the short-range test of financial adequacy by a wide margin.

- The assets of the DI Trust Fund are estimated to decline steadily from \$12.9 billion at the beginning of 1992 until the fund is exhausted in 1997, based on the intermediate assumptions. Based on alternative I, the DI Trust Fund would grow to 72 percent of annual expenditures by 2001. However, under the more pessimistic assumptions of alternative III, the DI Trust Fund would become exhausted in 1995.

The DI Trust Fund fails to meet the short-range test of financial adequacy.

- In the long range, income and expenditures are generally expressed as a percentage of the total amount of earnings subject to taxation under the OASDI program (referred to as “taxable payroll”). Income from OASDI payroll taxes, for example, represents 12.4 percent of taxable payroll—made up of the 6.2 percent tax rate paid by employees and a matching amount paid by their employers. (Self-employed workers pay OASDI taxes at the combined employee-employer rate.) Since these tax rates are not scheduled to change in the future under present law, OASDI payroll tax income as a percentage of taxable payroll remains constant at 12.4 percent.

Up to one-half of a beneficiary's OASDI benefits may be subject to Federal income taxation. The income tax revenues from this provision are transferred to the OASI and DI Trust Funds and are currently equivalent to about 0.2 percent of taxable payroll. Adding these income sources together yields a total "income rate" of 12.6 percent. This rate is estimated to increase gradually to 13.2 percent of taxable payroll by the end of the 75-year projection period based on the intermediate assumptions. The growth is attributable, in part, to the increasing proportion of beneficiaries who will pay income taxes on their OASDI benefits in the future.

- OASDI expenditures for benefit payments and administrative expenses currently represent about 11.5 percent of taxable payroll. This "cost rate" is estimated to remain below the corresponding income rate for the next 24 years, based on the intermediate assumptions. Under alternatives I and III, the estimated cost rate is lower than the income rate for the next 32 and the next 10 years, respectively. With the retirement of the "baby-boom" generation starting in about 2010 OASDI costs will increase rapidly relative to the taxable earnings of workers. By the end of the 75-year projection period, OASDI cost rates are estimated to reach 12.5 percent, 18.2 percent, and 27.4 percent of taxable payroll under alternatives I, II, and III, respectively.
- Under the intermediate assumptions, the excess of OASDI tax revenues over expenditures for the next 24 years, together with interest earnings on the trust funds, will result in a rapid accumulation of assets for the combined OASDI Trust Funds during this period. However, total income is estimated to fall short of expenditures in 2024 and later, under the intermediate assumptions. In this circumstance, trust fund assets would be redeemed to cover the difference. The assets of the combined OASI and DI Trust Funds are estimated to be depleted under present law in 2036 based on the intermediate assumptions. Under the more favorable conditions assumed in alternative I, the combined OASI and DI assets would continue growing throughout the long-range projection period, reaching about 10 times annual expenditures. Under the more pessimistic assumptions in alternative III, the combined assets are estimated to be exhausted in 2019.

Because the assets of the trust funds are generally invested in special securities of the U.S. Treasury, the initial accumulation of assets will result in a substantial cash flow from the trust funds to

## *Overview*

the general fund of the Treasury. The subsequent redemption of securities will cause this cash flow to reverse. The magnitude and pattern of these cash flows have important public policy and economic implications that extend beyond the operation of the OASDI program itself.

- Overall, for the period 1992-2066, the difference between the “summarized” income and cost rates is a deficit of 1.46 percent of taxable payroll based on the intermediate alternative II assumptions. Based on alternative I the difference is a positive actuarial balance of 1.09 percent of taxable payroll; and based on alternative III, the difference is a deficit of 4.89 percent of taxable payroll.

On a combined basis, the OASDI program does not meet the requirements for the long-range test of close actuarial balance. Individually, the OASI and DI Trust Funds also fail the long-range test.

- Because the short-range test of financial adequacy is not met by the DI Trust Fund, and the fund is expected to be exhausted in 1997, legislative action is promptly needed to strengthen the financing of the DI Trust Fund, after a review of the DI program.
- Because the long-range test of close actuarial balance is not met by either the OASI or DI Trust Funds, nor by the two funds, combined, appropriate options to strengthen the long-range financing of the program should be developed.

**C. TRUST FUND FINANCIAL OPERATIONS**

The various sources of income to the OASDI program, and categories of expenditures, can be illustrated by reference to the actual transactions during fiscal year 1991. The following table summarizes these transactions.

Type of transaction	Amount of transaction in fiscal year 1991 (in billions)
<b>Sources of income:</b>	
Payroll taxes.....	\$299.8
Taxation of benefits.....	5.9
General fund reimbursements <sup>1</sup> .....	-2.9
Interest.....	19.8
<b>Categories of expenditures:</b>	
Benefit payments.....	263.1
Railroad Retirement financial interchange.....	3.5
Administrative expenses.....	2.5

<sup>1</sup> This income category is normally positive, indicating a transfer from the general fund of the Treasury to the OASI and DI Trust funds. See text concerning nature of transfer in 1991.

**1. Income**

Most OASDI income consists of the taxes paid by employees, employers, and the self-employed on earnings in employment covered by the OASDI program. These taxes represent a portion of the Social Security payroll taxes collected under the Federal Insurance Contributions Act (FICA) and the Self-Employment Contributions Act (SECA). The balance of the Social Security payroll tax is used to finance Hospital Insurance (HI), commonly referred to as "Part A" of the Medicare program. Such taxes are paid on earnings up to specified maximum annual amounts. The following table shows the earnings bases, tax rates, and maximum tax amounts by program for 1992.

For 1992...	OASI	DI	OASDI	HI	Total for OASDI and HI
Maximum taxable amount of earnings.....	\$55,500	\$55,500	\$55,500	\$130,200	—
Tax rate for employees and employers, each (in percent).....	5.60	0.60	6.20	1.45	7.65
Tax rate for self-employed persons (in percent).....	11.20	1.20	12.40	2.90	15.30
Maximum tax payable by an employee or employer.....	\$3,108.00	\$333.00	\$3,441.00	\$1,887.90	\$5,328.90
Maximum tax payable by a self-employed person.....	\$6,216.00	\$666.00	\$6,882.00	\$3,775.80	\$10,657.80

## *Overview*

The tax rates for OASDI and for HI are not scheduled to change from their current values under present law. (The allocation of the OASDI tax rate between OASI and DI is scheduled to change in the year 2000, as described in section II.B.) The maximum amounts of earnings subject to OASDI and HI taxes increase automatically each year, based on the increase in the average wages for all workers (as described in section II.E).

In fiscal year 1991, OASDI payroll tax income amounted to \$299.8 billion. Payroll taxes represented 93 percent of the total income received by the OASDI program during the year.

Beneficiaries whose "adjusted gross income" exceeds certain threshold amounts must pay income taxes on up to one-half of their annual OASDI benefits. The revenue from this requirement is credited to the OASI and DI Trust Funds and totaled \$5.9 billion in fiscal year 1991.

The trust funds receive relatively small amounts of reimbursement from the general fund of the Treasury for certain special categories of benefits for which there is no other financing. In addition, every 5 years there is an adjustment to prior reimbursements (which had been made on an estimated basis) for the cost of granting certain wage credits for military service performed before 1957. These adjustments can result in either additional reimbursement to the trust funds or a partial return of amounts received previously. An adjustment was required in fiscal year 1991 and resulted in a substantial transfer from the trust funds to the general fund of the Treasury. The net effect of this adjustment and the usual reimbursements for special benefit categories was a transfer from the trust funds to the general fund totalling \$2.9 billion.

The final source of income to the trust funds is from interest on the invested assets of the funds. The portion of each fund that is not needed to meet current expenditures is invested. By law, these investments must be in interest-bearing securities of the U.S. Government, in securities guaranteed by the U.S., or in certain securities issued by Federally sponsored agencies. In practice, trust fund assets are invested almost entirely in special U.S. Treasury securities. Interest from all investments in fiscal year 1991 amounted to \$19.8 billion.

## **2. Expenditures**

The primary type of expenditure by the OASDI program is the payment of benefits. In fiscal year 1991, benefit payments totalling \$263.1 billion were made to retired and disabled workers and their families, and to survivors of deceased workers. These payments represented 98 percent of total OASDI expenditures for the year.

By law, there is a financial interchange between the OASDI program and the Railroad Retirement program. As a result of this requirement, in fiscal year 1991 \$3.5 billion was transferred from the OASI and DI Trust Funds to the Railroad Retirement program.

The last category of expenditure is for the cost of administering the OASDI program. In fiscal year 1991, administrative expenses were \$2.5 billion, or about 1.0 percent of total benefits paid during the year.

## **3. Trust Fund Assets**

For fiscal year 1991, total income was \$322.6 billion and total expenditures were \$269.1 billion. Thus, the assets of the OASI and DI Trust Funds increased by a total of \$53.5 billion during the year, from \$214.9 billion to \$268.4 billion.

The trust funds serve as a mechanism to absorb imbalances between income and expenditures. For example, during periods when expenditures temporarily exceed income, as might happen during a severe economic downturn or a period of very high inflation, trust fund assets can be used to meet the shortfall. In the event of recurring shortfalls for an extended period, the trust funds can allow sufficient time for the development, enactment, and implementation of legislation to restore financial stability to the program.

The assets of the trust funds are invested in interest-bearing obligations of the U.S. Government. These securities are backed by the full faith and credit of the U.S. Government, in the same way as other public-debt obligations of the U.S. Government. The interest earnings of these invested assets play an important role in program financing. In particular, as the level of assets continues to increase, over the next 20 to 30 years, interest earnings on the invested assets of the trust funds will become a larger share of total income. In fiscal year 1991, interest represented approximately 6 percent of total OASDI income.

#### ***D. INTRODUCTION TO ACTUARIAL ESTIMATES***

The financial and actuarial status of the OASDI program is traditionally evaluated both for the "short range" (the next 10 years) and for the "long range" (the next 75 years). Each of the various income and expenditure (or outgo, cost, or disbursement) items described in the previous section is estimated for the future, and combined to form estimates of the future level of trust fund assets.

The long-range period of 75 years is used in order to include the full range of expected future contributions and benefits payable on behalf of individuals currently contributing to the OASDI program or currently receiving benefits under the program. A worker who is now entering the labor force at age 22 will work and pay OASDI taxes for the next 45 years before reaching age 67, when full-rate retirement benefits (i.e., not reduced for early retirement) will first become payable. At that time, he or she might live and receive benefits for potentially as long as 30 years (or even longer). Thus, a 75-year projection period will include the entire working and retired life span of the great majority of workers now contributing to the program, as well as those currently receiving benefits.

Because of the inherent uncertainty in estimates for as many as 75 years into the future, projections are shown in this report for three alternative sets of assumptions regarding economic and demographic behavior. Designated as alternatives I, II, and III, the assumptions range from optimistic (alternative I) to pessimistic (alternative III), with alternative II representing the intermediate, or "best" estimates in the opinion of the Trustees.

From the estimated income, expenditure, and asset amounts, a number of different measures are calculated for use in evaluating the estimated financial status of the program. Because of the difficulty in comparing dollar values from one period to another, these measures are generally based on relative scales (although financial operations in nominal and inflation-adjusted dollar amounts are also available). These measures include (1) the annual amounts of future income and outgo as a percentage of the amount of earnings subject to the OASDI payroll tax, (2) the annual differences between these income and outgo figures, and (3) summary comparisons of these figures over various projection periods. The level of trust fund assets relative to annual program expenditures and the year in which trust fund exhaustion may be

projected to occur are additional measures for evaluating the financial status of the program. Careful review of these measures provides a reasonably complete picture of the financial outlook for the OASDI program.

The program is also subject to two explicit tests of financial status (see section II.F)—a short-range test and a long-range test. The purpose of the tests is to provide objective summary judgments as to whether or not the projected financial status of the OASDI program is considered satisfactory in each time period. The tests help highlight the need for corrective action to restore financial balance when their requirements are not met.

As with any analysis of a complex subject, these tests should not be used in lieu of a full understanding of the year-by-year patterns, trends, and other characteristics revealed by the underlying financial projections.

### ***E. ECONOMIC AND DEMOGRAPHIC ASSUMPTIONS***

Actual future income from OASDI payroll taxes and other sources, and actual future expenditures for benefits and administrative expenses, will depend upon a large number of factors: the size and composition of the population which is receiving benefits, the level of future benefit amounts, the size and characteristics of the work force covered under OASDI, and the level of workers' earnings in the future. These factors will depend in turn upon future marriage and divorce rates, birth rates, death rates, migration rates, labor force participation and unemployment rates, disability incidence and termination rates, retirement age patterns, productivity gains, wage increases, cost-of-living increases, and many other economic and demographic circumstances affecting the OASDI program.

It is not possible to know precisely what the future holds with respect to these economic and demographic factors. In recognition of this uncertainty, actuarial estimates are prepared under three alternative sets of economic and demographic assumptions. An "intermediate" set of assumptions, alternative II, is selected to provide a single "best estimate" of future economic and demographic conditions. Alternative I is a more "optimistic" set of assumptions from the standpoint of OASDI financing and alternative III is a more "pessimistic" set of assumptions. The assumptions vary from year to year during the first 5 to 25 years, before reaching their ultimate assumed values for the remainder of the 75-year projection period.

While it may be reasonable to assume that actual experience will fall within the range defined by these alternatives, no assurance can be given because of the uncertainty inherent in projections of this type. The following table summarizes the ultimate values assumed for the key economic and demographic factors underlying the actuarial estimates shown in this report. These ultimate values apply for years after 2015, with the exception of life expectancy which is assumed to continue improving throughout the projection period.

## *Economic and Demographic Assumptions*

Ultimate assumptions	Alternative I	Alternative II	Alternative III
Percentage change in:			
Average wage in			
covered employment .....	4.7	5.1	5.6
Consumer Price Index (CPI) .....	3.0	4.0	5.0
Real-wage differential (percent) .....	1.7	1.1	0.6
Unemployment rate (percent) .....	5.0	6.0	7.0
Interest rate (percent) .....	6.0	6.3	6.5
Fertility rate			
(children per woman) .....	2.2	1.9	1.6
Life expectancy at birth in 2070			
(combined average for men			
and women, in years) .....	77.9	80.8	84.3
Annual net immigration (in thousands).....	1,000.0	750.0	600.0

These key assumptions are essentially unchanged for the 1992 Annual Report, as compared to the assumptions used in the 1991 report. Revisions for the early years of the projection period based on data collected since the 1991 report had little effect on these ultimate annual rates. Only the values for life expectancy are slightly different because they reflect the accumulated difference in annual-mortality-rate assumptions for all years through the year 2070. Revisions based on recent data did, however, significantly affect the estimates. These revisions include updates reflecting higher fertility and mortality rates, lower taxable earnings, and a shift in the age distribution of the labor force. (See section II.F for details.) In addition, the measure of national output of goods and services used in this report was changed to gross domestic product from gross national product, consistent with the change made late in 1991 by the United States Department of Commerce. (See section II.D for details.)

These assumptions reflect a careful reassessment of past data and future prospects. No changes were deemed necessary at this time to ensure that the financial projections continue to be based on the most plausible range of economic and demographic conditions.

## ***F. SHORT-RANGE ACTUARIAL ESTIMATES***

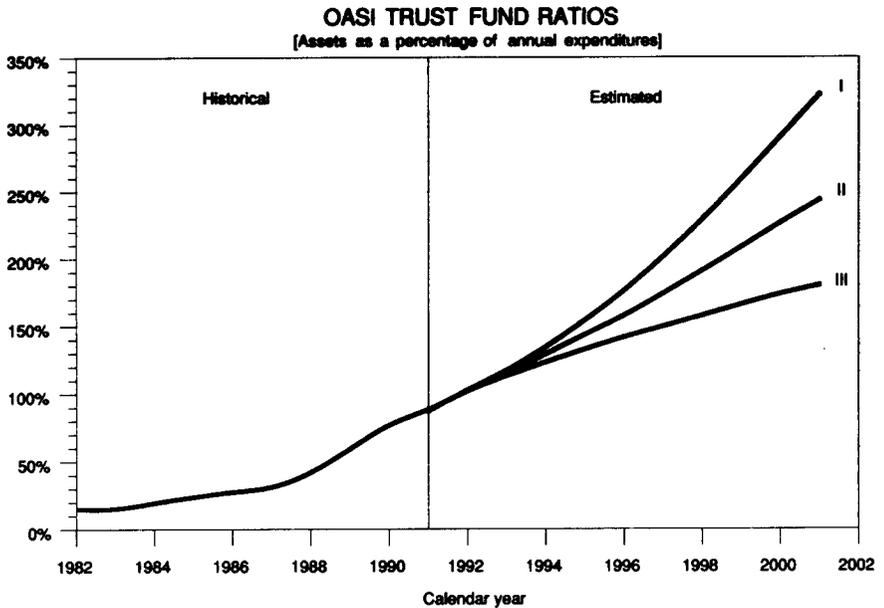
The financial status of the OASDI program during the next 10 years (1992-2001) is generally evaluated by examining the adequacy of the estimated future level of trust fund assets. Because of inflation, economic growth, and growth in the OASDI program, asset levels expressed in nominal dollar amounts are not comparable over long periods of time. For this reason, it is more informative to consider a relative measure of the program's financial condition.

For example, OASDI assets at the beginning of calendar year 1992 totaled \$280.7 billion, while assets at the beginning of 1960 were \$22.0 billion. The asset level in 1992 would be sufficient to cover almost 12 months of expenditures in the absence of other income. Assets in 1960, although much smaller in nominal dollars, could have covered about 22 months of expenditures and thus represented a much stronger contingency reserve.

The ratio of trust fund assets at the beginning of a year to expenditures during the year is termed the "trust fund ratio." The trust fund ratio serves as the primary measure of the fund's financial adequacy in the short range. It is also used when applying the explicit short-range test of financial adequacy, as will be illustrated in the next subsection. (Annual reports for prior years have sometimes referred to this ratio as the "contingency fund ratio.")

### **1. OASI Trust Fund**

The following chart presents trust fund ratios for the OASI Trust Fund. Actual past values for 1982 through 1991 are shown, together with estimated values for 1992-2001 based on the alternative sets of assumptions.



The estimates indicate that the OASI trust fund ratio would increase substantially in every year of the short-range projection period under each of the three sets of assumptions. Based on the alternative II assumptions, the ratio is estimated to increase from 103 percent at the beginning of calendar year 1992 to 245 percent by the year 2001. Under the more optimistic conditions assumed for alternative I, the ratio would reach 323 percent by the beginning of 2001. Despite the more pessimistic conditions under alternative III, OASI assets would still increase steadily to 180 percent of annual expenditures at the beginning of 2001.

As noted previously, an explicit test of short-range financial adequacy is applied to each trust fund. The conditions required to meet this test are as follows:

- If the trust fund ratio for a fund exceeds 100 percent at the beginning of the projection period, then it must be projected to remain at or above 100 percent throughout the 10-year projection period;
- Alternatively, if the fund ratio is initially less than 100 percent, it must be projected to reach a level of at least 100 percent within 5

## *Overview*

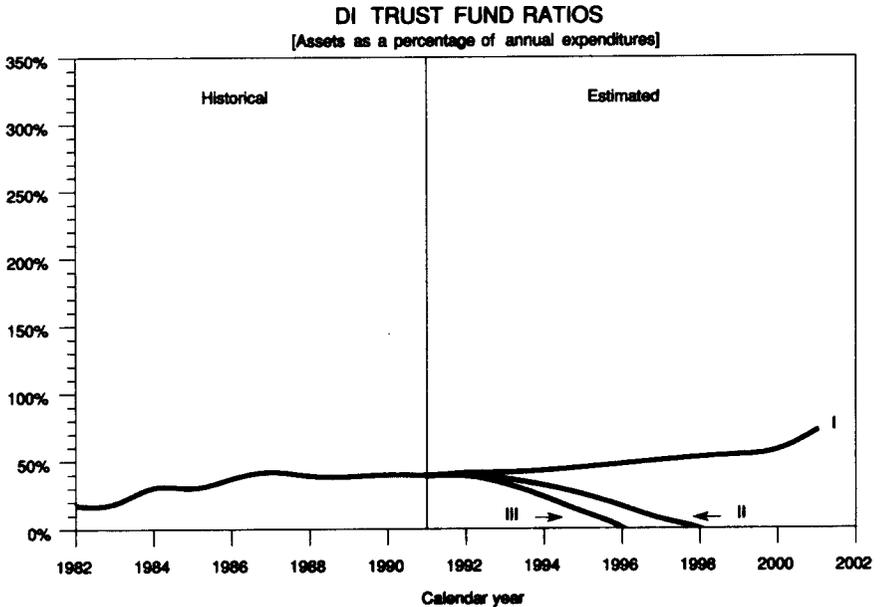
years (and not be depleted at any time during this period) and then remain at or above 100 percent throughout the remainder of the 10-year period.

This test is applied on the basis of the intermediate (alternative II) estimates. Failure to meet this test by a trust fund is an indication that solvency of the program over the next 10 years is in question and that action is needed to improve the short-range financial adequacy of the program.

Based on the alternative II assumptions, the assets of the OASI Trust Fund exceed 100 percent of annual expenditures at the beginning of 1992, and would remain well above the 100-percent level through the end of the year 2001. Consequently, the OASI Trust Fund satisfies the short-range test of financial adequacy. The estimates shown above also indicate that the test would be satisfied even under the adverse conditions assumed in alternative III.

## **2. DI Trust Fund**

As shown in the following chart, at the beginning of 1992 DI assets represented only about 41 percent of annual DI expenditures. Although the trust fund ratio for DI would grow somewhat under the optimistic assumptions, reaching 72 percent at the beginning of 2001, under the intermediate assumptions it would decline steadily to the point of exhaustion during 1992-97. In the absence of corrective legislation, the assets of the DI Trust Fund would become insufficient to meet benefit payments on a timely basis by the middle of 1997. Under the more adverse conditions assumed in alternative III, DI assets would decrease at a somewhat faster rate, and the trust fund would be exhausted late in 1995 without corrective legislation.



The unfavorable financial outlook for the DI program is primarily attributable to an increasing trend since 1982 in the proportion of workers who are awarded disability benefits and a decreasing trend since 1970 in the annual proportion of beneficiaries whose disability benefits terminate as a result of recovery, death, or attainment of age 65. In particular, the annual number of new disability awards has increased very rapidly in the last several years, from about 415,000 in 1988 to over 540,000 in 1991. During 1983 through 1988, the adverse financial consequences of these trends were offset by the favorable economic growth that was experienced during that period. The economy has slowed since then, however, with the result that growth in tax income has failed to keep pace with growth in benefits.

The DI estimates shown in this report represent a considerable worsening of the program's financial outlook compared to the estimates shown in the 1991 Annual Report. The 1991 report warned, as have prior annual reports since 1985, that a combination of adverse economic conditions and rapid growth in the number of DI beneficiaries could cause the DI Trust Fund to become depleted. The estimates in this report reflect the rapid growth in the number of DI beneficiaries experienced to date, as described above; in addition, it has been necessary to adjust the assumptions relating to future disability incidence

## *Overview*

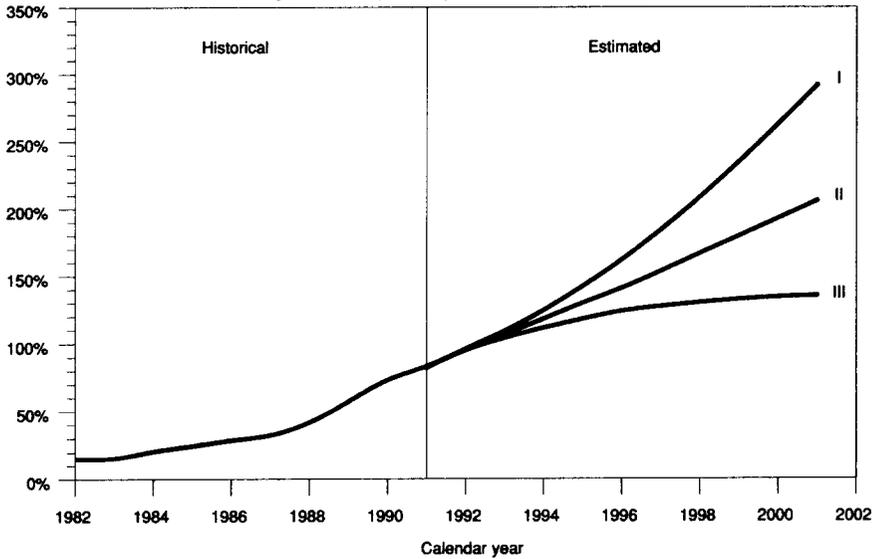
and benefit termination, to better match these recent trends. In particular, as a result of the introduction of more refined methodology this year, it has been possible to improve the analysis of recent trends in disability termination rates. The results of this analysis indicated the need for a substantial downward adjustment in the disability termination rates assumed for the short-range projection period.

Because DI assets fail to reach the level of 100 percent of annual expenditures under the alternative II assumptions (and would, in fact, be depleted in the sixth year of the projection period), the DI Trust Fund does not satisfy the short-range test of financial adequacy. (The DI Trust Fund also failed to satisfy this test in the 1991 Annual Report.) Accordingly, the financial position of the DI program should be strengthened.

### **3. OASI and DI Trust Funds, Combined**

The following chart summarizes the actual past and estimated future values of the trust fund ratio for the OASI and DI Trust Funds, combined. At the beginning of 1992, combined OASDI assets represented about 96 percent of combined expenditures for 1992. This ratio is projected to increase steadily during 1992-2001 under all three sets of assumptions. Under alternative II, the trust fund ratio for the combined funds would reach 206 percent at the beginning of 2001. Based on alternative I, the ratio would increase to 292 percent, while under alternative III it would climb more slowly to 134 percent.

TRUST FUND RATIOS FOR OASDI TRUST FUNDS, COMBINED  
 [Assets as a percentage of annual expenditures]



Under the alternative II assumptions, the total assets of the OASI and DI Trust Funds would exceed 100 percent of annual OASDI expenditures within 1 year, and would remain above that level through the remainder of the short-range projection period. Therefore, the combined trust funds meet the requirements of the short-range test of financial adequacy. Under the less favorable conditions assumed in alternative III, the fund ratio for OASI and DI combined would still increase to more than 100 percent within 1 year, and would remain above that level through 2001. Thus, the combined funds would pass the short-range test even under adverse conditions.